

HOUSE BILL REPORT

HB 2544

As Reported By House Committee On:
Appropriations

Title: An act relating to funding of the state retirement systems.

Brief Description: Funding the state retirement systems.

Sponsors: Representatives H. Sommers, Sehlin, Ogden, D. Sommers, Carlson, Conway and O'Brien; by request of Joint Committee on Pension Policy.

Brief History:

Committee Activity:

Appropriations: 1/28/98, 2/6/98 [DPS].

HOUSE COMMITTEE ON APPROPRIATIONS

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 26 members: Representatives Huff, Chairman; Alexander, Vice Chairman; Clements, Vice Chairman; Wensman, Vice Chairman; H. Sommers, Ranking Minority Member; Doumit, Assistant Ranking Minority Member; Gombosky, Assistant Ranking Minority Member; Benson; Carlson; Cody; Cooke; Crouse; Grant; Kenney; Kessler; Linville; Lisk; Mastin; McMorris; Parlette; Poulsen; Regala; Sehlin; Sheahan; Talcott and Tokuda.

Minority Report: Without recommendation. Signed by 2 members: Representatives Chopp and Keiser.

Staff: Denise Graham (786-7137).

Background: Legislation passed in 1989 requires that pension contribution rates be set at the level percentage of pay needed to fully amortize the total costs of the Public Employees' Retirement System (PERS) Plan 1, the Teachers' Retirement System (TRS) Plan 1, the Law Enforcement Officers' and Fire Fighters' (LEOFF) Retirement System Plan 1 and the unfunded liability of the Washington State Patrol Retirement System by June 30, 2024. Pension contribution rates must also be set so as to continue to fully fund PERS and LEOFF Plan 2, and TRS Plans 2 and 3. In addition to these requirements, the statutes state that the rate-setting process is also intended to achieve the goal of establishing predictable long-term employer contribution rates which will remain a relatively constant proportion of the future state budgets.

In odd-numbered years, the Economic and Revenue Forecast Council adopts the following long-term economic assumptions to be used by the State Actuary in conducting actuarial valuations of the state-administered pension systems: growth in system membership; growth in salaries; growth in inflation; and investment rate of return. In even-numbered years, based on the results of the actuarial valuations, the Economic and Revenue Forecast Council adopts the pension contribution rates to be used in the ensuing biennium.

The Economic and Revenue Forecast Council is a six-member council consisting of four legislators, the Director of the Office of Financial Management, and the director of the Department of Revenue.

The state actuary is the executive head of the Office of the State Actuary, which is an office within the legislative branch. The state actuary is appointed by the Joint Committee on Pension Policy.

The Joint Committee on Pension Policy (JCPP) is a statutorily-created legislative committee consisting of eight members appointed by the president of the Senate, four from each party, and eight members appointed by the speaker of the House of Representatives, four from each party. The committee must also establish an executive committee of four members, representing the majority and minority caucuses of each house.

Summary of Substitute Bill: The Pension Funding Council is created and consists of the director of the Department of Retirement Systems, the director of the Office of Financial Management, and the chair and ranking minority members of the House Appropriations Committee and the Senate Ways and Means Committee. The Pension Funding Council will adopt changes to the following long-term economic assumptions: growth in system membership; growth in salaries; growth in inflation; and investment rate of return. Every two years, beginning September 1998, the Pension Funding Council will adopt pension contribution rates to be used in the ensuing biennial period.

The Pension Funding Council is also responsible for soliciting and administering a biennial actuarial audit of the actuarial valuations used for rate-setting purposes. The audit will be conducted concurrently with the preparation of the actuarial valuation performed by the state actuary.

A pension funding work group is created and consists of one staff person selected by the executive head or chairperson of the following agencies or committees: the Department of Retirement Systems, the Office of Financial Management, the State Investment Board, the Senate Ways and Means Committee, the House Appropriations Committee and the Economic and Revenue Forecast Council. The work group provides staff support to the Pension Funding Council. The state actuary provides information related to economic

assumptions and contribution rates to the work group. The work group will seek out recommendations from affected employee and employer groups and will conduct an open public meeting on their recommendations.

Substitute Bill Compared to Original Bill: In the original bill, the members of the executive committee of the Joint Committee on Pension Policy were made members of the Pension Funding Council. In the substitute, the chairs and ranking minority members of the House Appropriations Committee and the Senate Ways and Means Committee, rather than the executive members of the JCPP, are on the council.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Substitute Bill: Ninety days after adjournment of session in which bill is passed.

Testimony For: The concept reflected in the bill is sound. Contribution rates in LEOFF II should be at an artificially high level so that excess funds could be used to fund future LEOFF II enhancements.

Testimony Against: This bill takes a baby step in the right direction. In most states, there is a pension board with employees represented on the board. Employees would like more say in the management of the pension system.

Testified: Mike Patrick, Washington State Council of Police Officers (supports); Lynn McKinnon, Washington Public Employees Association; Joe Beck, Retired Public Employees Council; Bob Maier, Washington Education Association (all with concerns); and Devone Smith, Washington Federation of State Employees (opposed).